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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** PATRICK STEFFENSEN, LORENA REICHERT & AMANDA REISS  
**RE:** EL18-010 - In the Matter of the Filing by Montana-Dakota Utilities Co., a Division of MDU Resources Group Inc. for Approval of the Annual Update to Its Infrastructure Rider Rate  
**DATE:** April 16, 2018

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### BACKGROUND

On March 1, 2018, the South Dakota Public Utilities Commission (Commission) received a filing by Montana-Dakota Utilities Co., a Division of MDU Resources Group Inc. (MDU) for approval of the annual update to its Infrastructure Rider Rate.

Previously, on June 15, 2016, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation in Docket EL15-024. This settlement established an Infrastructure Rider. This initial Infrastructure Rider allowed for the recovery of Thunder Spirit Wind (TSW), a 107.5 MW wind farm located in Adams County near Hettinger, North Dakota. TSW was selected as a part of MDU's 2013 Integrated Resource Plan. After reviewing the options of entering into a PPA arrangement or owning TSW, MDU went forward with owning TSW.

Refer to the Confidential Staff Memorandum in Docket EL15-024 for further discussion of Staff's analysis regarding TSW. MDU and Staff agreed to cost recovery for TSW through the Infrastructure Rider as a part of the Settlement Stipulation in Docket EL15-024 with the explicit provision that Staff reserves the right to propose alternative treatment or adjustments to the revenue requirement, including true-up of prior years' revenue requirements, in each annual rider filing and future rate cases.

MDU filed its first annual Infrastructure Rider filing pursuant to the EL15-024 settlement on March 1, 2017 (Docket EL17-010). The Commission issued an Order Approving the Infrastructure rider rate on April 28, 2017, ordering MDU may continue charging the existing tariff rate of \$0.00497 per kWh for the rate period covered by the filing.

Pursuant to the terms of the Company's Infrastructure Rider Rate 56 tariff, MDU filed in this current docket for Commission approval of the annual update to its Infrastructure Rider. Costs to be included as a part of the infrastructure rider are based on the South Dakota share of the monthly plant in service balances, net of accumulated depreciation and associated deferred taxes, and operating expenses related to TSW. Operating expenses such as labor and benefits, easement charges and a maintenance agreement are a part of the rider. TSW depreciation and generation taxes are also included. The production tax credits associated with the generation provided by TSW are included as a credit within the overall revenue requirement. The under collected balance includes a carrying charge which is based on the authorized rate of return applied to the prior month's ending deferred balance, net of tax.

## **2017 Revenue Requirement**

MDU's filing reports an actual 2017 South Dakota revenue requirement of \$601,930, while the revenue recovered from ratepayers in 2017 was \$715,844. Given the year-beginning under recovery balance of \$177,923, the year-ending under recovery balance equals \$64,009 and the resulting carrying charge is \$5,342, as calculated using the rate of return of 7.216% from Docket EL15-024.

## **Revisions for Next Year's Filing**

During discovery, Staff identified some minor errors in the South Dakota Infrastructure Rider. In Attachment B, depreciation expense for August through December 2018 should be held at a constant \$33,872 and not the increasing amount as currently shown. This correction would change the 2018 revenue requirement to \$575,503, a decrease of \$81. This does not have any effect on the currently proposed rate.

Additionally, the 2017 revenue requirement, as shown in Attachment C, should be calculated using the gross receipts tax amount of 0.0015. This correction would change the 2017 revenue requirement to \$602,020, an increase of \$90. This also does not have any effect on the currently proposed rate.

Thus, Staff does not recommend MDU spend additional resources with an amended filing, as MDU has assured Staff the above-mentioned corrections will be made in next year's filing.

## **2018 Projected Revenue Requirement**

The projected 2018 Infrastructure Rider revenue requirement and results were generally calculated using the 2017 South Dakota actuals with adjustments made where necessary. MDU estimates a projected South Dakota 2018 revenue requirement of \$575,584 for a total amount to be recovered in 2018, including the under recovery and carrying charge, of \$644,935.

## **OTHER ISSUES**

### **Annual Report on Thunder Spirit Wind Performance**

As part of the Stipulation in Docket EL15-024, MDU agreed to report average capacity factors, transmission curtailments, and economic curtailments on an annual basis. MDU included such a report on page 3 of its letter in this docket. The report outlines a 2017 actual capacity factor of 45.3%, no transmission curtailments, and economic curtailments of 7,380 MWh in 2017.

### **Tax Cuts and Jobs Act**

This filing includes the incremental, going-forward impact of the Tax Cuts and Jobs Act (TCJA) on the revenue requirement of this infrastructure rider alone, effective January 1, 2018. This rider represents one isolated component of the overall cost of service and overall TCJA impact on ratepayers, which is currently being investigated in docket GE 17-003. Staff will continue to work with MDU to ensure ratepayers are adequately provided the benefits of the TCJA.

## **RECOMMENDATION**

Staff's recommendation is based on its analysis of MDU's filing, discovery information, relevant statutes, previous Commission orders, and previous settlement stipulations. Staff's review consisted of, but not limited to, the 2017 tracker report, the forecasted 2018 revenue requirement, and rate calculation.

Staff believes the Company's filing is consistent with the settlement approved in Docket EL15-024 and prior infrastructure rider filings. Staff recommends the Commission approve the 2018 Infrastructure Rider revenue requirements and Infrastructure Rider rate of \$0.00432 per kWh, effective May 1, 2018.